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BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

Statutory Review of the System for Regulating Rates and Classes for Market Dominant Products	Docket No. RM2017-3

COMMENTS OF THE NEWS MEDIA ALLIANCE

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COMMENTS OF THE NEWS MEDIA ALLIANCE
(March 1, 2018)

The News Media Alliance ("NMA") respectfully submits these comments in response to the Notice of Proposed Rulemaking in Order No. 4258 (Dec. 1, 2017) ("NPRM"). While NMA recognizes that the NPRM is well-intentioned, it tries to do too much with just one tool — rates for market-dominant products — that was never intended to serve as a cure for the Postal Service's overall balance sheet. These proposals would likely cause permanent, long-term harm to the Postal Service that will inure to no one's benefit.

I. Introduction And Summary

The NMA represents nearly 2,000 diverse news organizations in the United States and Canada—from the largest news groups and international outlets to hyperlocal news sources, from digital-only and digital-first to print news—in short, all news media content creators. NMA members are known for highly-engaged audiences, quality journalism products, and sophisticated digital services.

NMA members use all categories of market-dominant products. They use First-Class Mail for invoices and payments; Periodicals Mail for distribution (In- or Outside County, depending on each member's situation); and USPS Marketing Mail to deliver "Total Market Coverage" (or "TMC") program mailings. TMC mailings typically include preprinted and other advertising, often primarily for local and small businesses and targeted to a specific geographical area. These shared mail packages most typically are mailed at High Density Plus and Saturation flats rates.

Like the Postal Service, NMA members have experienced numerous business challenges over recent years. Structural change in the newsgathering and publishing business has sharply affected revenues, subscriber and advertiser demand, and cost. Publishers have had to confront problems ranging from reduced revenues to rising costs for newsprint or other inputs that can escalate unexpectedly. Meanwhile, print subscriptions have declined as consumers of news and information have shifted to digital alternatives that generate less advertising revenue for publishers.

Due to these and other cost pressures facing our business, NMA members have reduced their use of the mail in recent years, particularly in TMC distribution. Unfortunately, those pressures are not abating. Higher newsprint prices, as well as recent newsprint tariffs, have sharply increased newspapers' costs of doing business even within the past year. Postage increases of the sizes contemplated by the NPRM will drive mail out of the system.

Our overarching concern is that the NPRM tries to accomplish too much, and with a tool inappropriate for the task. Although Congress directed the Commission to conduct this review pursuant to 39 U.S.C.§3622(d)(3), this review is limited to the regulation of the rates for market-dominant products; it is not a license to address problems for which market-dominant mail is not responsible nor is it a process that should ignore the vital role of Competitive Products which now account for nearly one-third of the Postal Service's total revenue.

There is no need to change the statutory price cap. It has worked as intended and has helped to retain volume in the face of strong pressures to leave the system. The Commission should not jeopardize these successes in a futile quest to fix the Postal Service's balance sheet through higher prices.

II. The Postal Service's Problems Are Not Caused By The Current System For Setting Rates For Market-Dominant Products

The NPRM is premised upon the Commission's determinations in Order No. 4257 that the Postal Service does not appear to have "medium-term" or "long-term" financial stability. But the financial numbers that the Commission relied upon to reach those determinations are not the fault of the current price cap system established by Congress.

Indeed, the price cap system has successfully financed market-dominant postal operations without interruption since its enactment. Mail is being delivered six days a week; the Postal Service has made progress towards reducing its costs; rate adjustments have been swifter and simpler; and mailers have benefitted from generally predictable and stable rates. The price cap has done so despite a major recession, a persistent decline in volume, electronic diversion, and an ever-growing number of delivery points (indeed, although the Postal Service views the growth in delivery points as a cost, it increases the value of its network). And, in response to the recession of 2007-2009, the Commission applied the exigency provision in Section 3622(d)(1) to allow the Postal Service a temporary rate increase to offset its losses due to the that economic turmoil.

These are not symptoms of a system needing a cure.

The PAEA also granted the Postal Service pricing flexibility that allowed it to introduce rate design changes more easily than under the previous system. The Postal Service has made use of that flexibility to introduce various pricing innovations in USPS Marketing mail, including the High Density Plus flats rate and Saturation mail promotional incentives, which NMA members have used successfully over the past decade.

One goal of the PAEA was to encourage the Postal Service to reduce costs and become more efficient. To this end, Congress established the CPI-U the price cap to give the Service an incentive to reduce its costs. The Postal Service responded, as Congress intended, by reducing its costs and becoming more efficient. Some major initiatives, such as network rationalization, the closing of many post offices, and the lowering of service standards, reduced costs, although perhaps not as much as had been hoped.[1] Others, such as the Flats Sequencing System, have not worked out well. In Periodicals mail in

[1] Unfortunately, while they were necessary to keep the Postal Service relevant and affordable, NMA member newspapers, and in particular community newspapers using Within-County rates, have suffered from these changes. The troubled implementation of the mail processing network restructuring and the closing of business mail entry operations as smaller post offices were shuttered gave rise to subscriber complaints about late deliveries. And new costs to meet critical entry times at less convenient entry points are current problems.

particular, NMA members are quite aware that more efficiencies in operations and pricing remain necessary. Perhaps the most important contributor has been a substantial reduction in its staffing through attrition. Despite some missteps, these cost reduction measures have saved the Postal Service billions of dollars a year.

Also during the PAEA period, the Postal Service has enjoyed rapidly increasing volumes, revenues, and profits from its Competitive Products. In fact, Competitive Products in FY 2017 generated more revenue ($20.689 billion) than Periodicals ($1.374 billion) and USPS Marketing Mail ($16.672 billion) combined.[2] This part of the Postal Service's business continues to grow and the Commission reasonably should expect it to bear an increasing share of the Postal Service's overhead costs. However, the NPRM inexplicably does not consider this source of nearly one-third of the Postal Service's revenue in developing its proposals. Instead, it proposes to replenish the Postal Service's balance sheet entirely from the pockets of market-dominant mailers.

Order No. 4257 found the Service's finances to be unstable due to the debt on its balance sheet. The very fact that the Postal Service has operated successfully under the current system despite a negative balance sheet (according to generally accepted accounting principles) should indicate that premising major changes on the Postal Service's balance sheet is misguided.[3] If

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[2] *Postal Service Annual Compliance Report Fiscal Year 2017* at 13, Table 2 & 68 (Dec. 29, 2017).

[3] The Postal Service's balance sheet would look far better if it included the market value of the Service's real estate and the more than $300 billion in its pension funds. Although these are

the prefunding defaults and negative balance sheet were indeed an existential problem, the Service would have ceased operations several years ago. It clearly has not.

The Commission should remember that much of that debt is due to the prefunding obligation imposed on the Postal Service by Congress. This non-operational cost was imposed solely in order to satisfy budgetary "scoring" accounting requirements in late 2006. It has nothing to do with current operations – on the contrary; its stated purpose is to fund health benefits of *future* postal retirees, including those who have yet to begin their employment with the Postal Service.

In recent years, the Postal Service missed prepayments with no discernible adverse consequence. That is evidence that the GAAP-based balance sheet may not be a useful tool for assessing the Postal Service, which is a government entity. Rather, the experience of the past few years strongly suggests that cash flow is a more appropriate measure for the Postal Service, and by that measure the current system is doing well.

To the extent that the Commission perceives a problem with the Postal Service's balance sheet, it should also recognize that significant fault for that deficit lies at the foot of Congress, which imposed the prefunding obligation in order to satisfy a budgetary "score," not to address an operational reality. The prefunding requirement is entirely unrelated to market-dominant products or the system that regulates their rates, the only proper subject of this review. Market-

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not included on a GAAP balance sheet, they are certainly relevant to the Service's financial strength.

dominant rates cover the costs attributable to them as a group, just as Competitive Products cover their costs. Those rates are not the problem, and should not be forced to be the solution.

Instead, the appropriate forum for "fixing" the Postal Service's balance sheet, if it truly needs fixing, is Congress – which created the prefunding obligation in the first place. The directive in Section 3622(d)(3) to review the system for setting market-dominant product rates was an instruction to ensure that the price cap system was working as intended, not a license to revise the system fundamentally in order to fix other problems arising from the statute.

III. Newspapers Cannot Afford The Proposed Rate Increases

The PAEA-established price cap has helped to slow the decline of mail volumes by keeping rates at, essentially, the rate of inflation for the past decade other than for the disruption of the exigency surcharge.

Asking the dwindling volume of market-dominant mailers to pay rate hikes up to 3 percent above inflation (or more, in the case of so-called "underwater" products) is not a strategy likely to succeed in erasing red ink on the balance sheet. Raising rates on a financially challenged customer base will only cause that base to shrink more, and more quickly, given the availability of alternative forms of distribution.

Consider first NMA members' TMC mailings in Marketing Mail. These mailings typically use High Density Plus or Saturation Rates. Yet changes in the advertising market that TMC products serve (put differently, the demand for comprehensive geographic distribution of print advertising) have constrained the ability of newspapers to make greater use of these rates. Indeed, even the current rates are too high in many geographic markets, judging by the willingness of advertisers to pay. Even at today's postage rates, many newspapers are beginning to shift their TMC products to private carrier delivery. Increasing rates by 10 percent above the rate of inflation over five years would cause even more to examine that option closely.

Consider also NMA members' use of Periodicals products, both In- and Outside County. In addition to price, the most important factors driving the use of those products are subscribership levels and service. Subscriber levels have fallen in recent years, particularly since the Great Recession and the widespread availability of digital news.

Another factor is that service problems for Periodicals Mail have been profound. The Commission is well aware of service problems encountered by small and community newspaper after the implementation of Network Rationalization. There is much more to do. The Postal Service has not fully implemented improvements in pricing efficiency and operations for Periodicals, although these have been discussed with mailers and suggested by the Commission in the past. These initiatives, including more efficiently set prices and worksharing discounts, and operational changes targeted to newspaper mail, should be attempted before resorting to the easy out of higher rates.

Indeed, it is particularly important to avoid measures that would drive Periodicals mail away – our newspapers are valued by consumers who have paid money to receive them and add immeasurably to the value of the "mail moment."

The centerpiece of the NPRM proposal is to allow the Postal Service additional cap authority of 2 percent above inflation per class in each of the next five years, and an *additional* 2 percent in Periodicals Class mail. After five years, real rates (adjusted for inflation) would be *more than 10 percent higher for TMC products than if the current system were unchanged*, and *more than 20 percent higher for Periodicals*.[4] This is simply unaffordable.

A compounded 10+ percent (or more, in Periodicals mail) real rate increase would have drastic consequences on mailers already facing significant business challenges. NMA members cannot simply pass along such rate increases to their customers in either Marketing or Periodicals Mail. Neither subscribers nor advertisers are willing to pay higher prices. Many mailers would have no option to either pay much higher prices for exactly what they receive today, to reduce their distribution, or to shift to more affordable alternatives. The consequences to local news and distribution could be incalculable.

NMA's members have had to engage in significant cost cutting for some time, and can agree with the Commission's conclusion in Order No. 4257 that the Postal Service, despite the PAEA and the price cap, has not reduced costs sufficiently. So NMA finds it difficult to understand how the NPRM expects the incentives for cost reduction will improve by giving the Postal Service two percent

[4] The total increase would be greater than ten (or 20) percent because, after the first year, the increases would be compounded by the following year's increase, and this would continue for all five years.

of additional price cap authority with no conditions attached. A "cure" less in keeping with the Objective of encouraging pricing efficiency and cost reduction would be difficult to imagine. And the proposal to give the Postal Service an additional 0.75 percent rate authority above inflation for improving its Total Factor Productivity, while at least aiming at improving efficiency, is accompanied with such a modest threshold that it amounts to simply giving the Postal Service that much more money.

Finally, while improved service achievement might help retain volume, but the proposal to allow the Postal Service an extra 0.25 percent above cap rate authority is utterly disconnected from the reality of delivery performance. Allowing the Postal Service extra cap authority for merely maintaining today's published service standards is merely another means of imposing an unaffordable rate increase on market dominant mailers already facing difficult financial and market pressures.

IV. Conclusion

The price cap system that governs the rates for market-dominant products has done so successfully for a decade. Rate increases as proposed by the NPRM would cause incalculable harm to the Postal Service's efforts to retain advertising and subscriber mail in the system. They seek to "cure" an unrelated balance sheet "problem" caused by neither market-dominant mail nor the system by which its rates are regulated. That system is limited to regulating rates charged for the market-dominant mail; it is not intended to solve broader issues affecting the Postal Service, nor should it.

Accordingly, the News Media Alliance respectfully recommends that the Commission make no changes in the current system for regulating the prices of market-dominant postal products and, as the expert regulatory agency, should once again remind Congress of the urgent need to repeal the prefunding and related obligations, by far the most important step towards pointing the postal system in the right direction.

Respectfully submitted,

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